

General insurance: Penetration and density

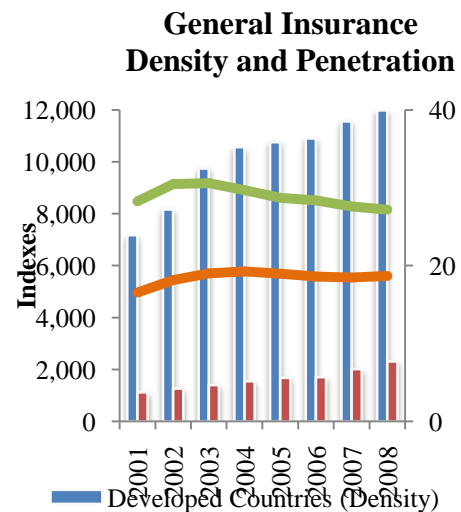
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INTRODUCTION

General insurance penetration, which is defined as a ratio of premium to GDP of the country¹, represents the relative importance of the insurance industry in the domestic economy.² **General insurance density** is measured as a ratio of premium to total density.¹ It represents the average insurance spending per capita in a given country.²

WORLDWIDE SCENARIO: A JUXTAPOSITION OF EXTREMITIES



Source: data from IRDA

GLOBAL GENERAL INSURANCE PENETRATION

There is a striking difference between developed and developing nations in terms of general insurance penetration and density. It was highest for United States in 2008. It was very closely followed by Switzerland. In fact, General insurance density and penetration both has always been high for these two countries. In this way, these two countries can be regarded as the world leader in general insurance industry.

¹ <http://www.irdaindia.org/>

² http://www.oecd.org/document/28/0,3343,en_2649_34851_40182748_1_1_1_1,00.html

General insurance penetration has not shown much change over the years. For developed countries the average General insurance penetration for 2008 was 3.40 while that of developing nations was just 2.90. Also, there have been no major changes in these values since 2001.

Among developing countries, South Africa and Taiwan are fast gaining momentum. Russia is General insurance density on an international platform is definitely very high for the developed countries. It is mainly due to increased awareness about the benefits of general insurance in these countries.

General insurance density has always been the highest for Switzerland. It has been closely followed by United States. Germany, France and United Kingdom as these nations are next in the line in terms of general insurance density.

There is a huge difference between the general insurance density of developing nations and that of developed nations.

also a close competitor in terms of general insurance penetration.

In the Indian sub-continent, it is Sri Lanka that has shown the maximum general insurance penetration and density. India is the next in the rank.

GLOBAL GENERAL INSURANCE DENSITY

One point to notice is that general insurance density is steadily decreasing for developed countries and that of developing countries is showing an upward trend. It indicates that developed countries have market saturation in terms of general insurance density. Hence, it is highly expected that general insurance density will show increment in developing countries as compared to developed countries.

Also, worldwide growth in general insurance density has been higher as compared to the growth in general insurance penetration.

INTERNATIONAL COMPARISON OF GENERAL INSURANCE PENETRATION*

Countries	2001	2002	2003	2004	2005	2006	2007	2008
Developed Countries								
United States	4.57	4.98	5.23	5.14	5.01	4.80	4.70	4.60
United Kingdom	3.45	4.56	4.75	3.68	3.55	3.40	3.00	2.90
Switzerland	4.76	5.22	5.02	5.02	4.99	4.90	4.60	4.40
France	2.85	2.97	3.16	3.14	3.13	3.10	3.00	3.00
Germany	3.59	3.7	3.82	3.86	3.73	3.60	3.60	3.50
South Korea	3.38	3.38	2.86	2.77	2.98	3.20	3.60	3.70
Japan	2.22	2.22	2.2	2.25	2.22	2.20	2.10	2.20
Australia	3.45	3.46	3.57	3.85	3.09	3.20	3.00	2.90
**TOTAL	28.27	30.49	30.61	29.71	28.70	28.40	27.60	27.20
**MEAN	3.53	3.81	3.83	3.71	3.59	3.55	3.45	3.40
**GROWTH RATE		7.85 %	0.39 %	- 2.94%	- 3.40%	- 1.05%	- 2.82%	- 1.45%
Developing Countries								

Brazil	1.78	1.74	1.68	1.62	1.68	1.60	1.60	1.60
Russia	1.51	1.81	2.13	2.22	2.15	2.30	2.40	2.30
Taiwan	2.59	2.81	3.03	3.07	2.93	2.90	2.80	2.90
Hong Kong	1.21	1.45	1.5	1.39	1.29	1.20	1.20	1.30
Malaysia	1.8	1.97	2.06	1.88	1.82	1.70	1.50	1.50
Singapore	1.18	1.43	1.5	1.48	1.48	1.10	1.50	1.60
Thailand	1.08	1.15	1.2	1.58	1.62	1.60	1.50	1.50
India	0.56	0.67	0.62	0.64	0.61	0.60	0.60	0.60
PR China	0.86	0.95	1.03	1.05	0.92	1.00	1.10	1.00
Sri Lanka	0.67	0.75	0.75	0.77	0.84	0.90	0.90	0.90
Pakistan	0.38	0.38	0.38	0.43	0.4	0.50	0.40	0.40
Bangladesh	0.17	0.17	0.2	0.2	0.2	0.20	0.20	0.20
South Africa	2.78	2.86	2.92	2.95	3.03	3.00	2.80	2.90
**TOTAL	16.57	18.14	19	19.28	18.97	18.6	18.50	18.70
**MEAN	1.27	1.40	1.46	1.48	1.46	1.43	1.42	1.44
**GROWTH RATE		9.47 %	4.74 %	1.47%	- 1.61%	- 1.95%	- 0.54%	1.08%
World	3.15	3.38	3.47	3.44	3.18	3.00	3.10	2.90
**GROWTH RATE (World)		7.30 %	2.66 %	- 0.86%	- 7.56%	- 5.66%	3.33%	- 6.45%

Source: Swiss Re, Sigma various volumes.

* Insurance penetration is measured as ratio (in per cent) of premium (in US Dollars) to GDP (in US Dollars)

** These data have been calculated

INTERNATIONAL COMPARISON OF GENERAL INSURANCE DENSITY*

Countries	2001	2002	2003	2004	2005	2006	2007	2008
Developed Countries								
United States	1664.0	1799.0	1980.2	2062.6	2122.0	2134.2	2164.4	2177.4
United Kingdom	825.9	1199.7	1441.4	1318.0	1311.9	1327.1	1383.2	1275.7
Switzerland	1627.1	1822.7	2228.5	2441.3	2480.3	2450.1	2581.7	2827.9
France	630.6	714.7	930.4	1057.7	1093.9	1152.9	1219.3	1339.2
Germany	809.9	891.0	1120.8	1265.3	1268.4	1300.7	1427.9	1572.7
South Korea	296.7	337.9	369.4	412.5	495.5	591.2	727.3	621.0
Japan	701.1	714.7	768.0	830.8	790.4	760.4	736.0	829.2
Australia	628.0	695.5	912.1	1186.3	1203.2	1191.9	1326.1	1348.6

**TOTAL	7183.3	8175.2	9750.8	10574.5	10765.6	10908.5	11565.9	11991.7
**MEAN	897.9	1021.9	1218.9	1321.8	1345.7	1363.6	1445.7	1499.0
**GROWTH RATE		13.81%	19.27%	8.45%	1.81%	1.33%	6.03%	3.68%
Developing Countries								
Brazil	53.2	45.0	46.8	55.2	72.1	88.4	106.9	129.1
Russia	32.6	43.5	64.3	89.6	116.5	146.9	203.3	268.1
Taiwan	327.6	354.1	383.2	414.4	446.4	450.3	462.3	499.6
Hong Kong	295.5	345.1	348.7	332.9	331.7	331.6	341.3	380.8
Malaysia	68.8	79.3	87.2	89.2	95.3	103.0	110.6	119.5
Singapore	245.8	300.6	320.3	365.4	392.0	341.2	531.2	630.0
Thailand	19.8	23.1	27.6	41.3	44.4	50.0	58.9	64.9
India	2.4	3.0	3.5	4.0	4.4	5.2	6.2	6.2
PR China	7.8	9.5	11.2	12.9	15.8	19.4	25.5	33.7
Sri Lanka	5.4	6.1	7.2	7.9	9.4	12.8	14.7	19.3
Pakistan	1.5	1.7	1.8	2.2	2.8	3.6	3.9	4.0
Bangladesh	0.6	0.6	0.7	0.8	0.8	0.8	0.9	1.1
South Africa	69.1	64.8	107.4	141.0	156.2	160.2	159.5	163.6
**TOTAL	1130.1	1276.4	1409.9	1556.8	1687.8	1713.4	2025.2	2319.9
**MEAN	86.9	98.2	108.5	119.8	129.8	131.8	155.8	178.5
**GROWTH RATE		12.95%	10.46%	10.42%	8.41%	1.52%	18.20%	14.55%
World	158.3	175.6	202.5	220	219	224.2	249.6	264.2
**GROWTH RATE (World)		10.93%	15.32%	8.64%	-0.45%	2.37%	11.33%	5.85%

Source: Swiss Re, Sigma various volumes.

* Insurance density is measured as ratio of premium (in US Dollar) to total population.

** These data have been calculated

ASIA: AN ATTRACTIVE MARKET WITH HIGH GROWTH POTENTIAL

GENERAL INSURANCE PENETRATION IN ASIA

Insurance penetration is low in Asia as compared to other continents. However, the growth rate of non-life insurance penetration had been impressive over the years. Hence, it safely categories Asia as an emerging market.

Among developed nations in Asia, its Japan and South Korea that has maximum general insurance penetration. In case of Japan the growth rate of general insurance penetration had been almost constant at an average penetration value of 2.22.

For South Korea, the general insurance penetration in the country had been quite high in 2001-2002. However, there has been a continuous decrease in 2003-2004. Penetration again regained its pace from the year 2005 onwards. For the year, 2008, it was 3.70. Presently, South Korea is the country with the highest general (non-life) insurance penetration in Asia.

Among developing countries in Asia, it's Taiwan which has the highest non-life insurance penetration. The value was 2.90 in the year 2007. It has been on a constant increment from the year 2001 till 2004, reaching a value of 3.07 in 2004. However, the penetration had been on a steady decline from 2005 till 2007. But it again rose up in 2008. Taiwan is just next to South Korea in terms of general insurance penetration. Also, Hong Kong, Malaysia, Singapore and Thailand have maintained an average non-life insurance penetration of 1.5. It is, in itself, evidence that the Asian market is in its nascent stage.

China is one country that is on a constant increase in terms of general insurance penetration. In 2008, the value had been 1. The average growth rate of insurance penetration stands at 10 per cent which is an impressive double digit growth rate.

When talking about the Indian sub-continent, its Sri Lanka that is ahead of the other three countries, viz. India, Pakistan and Bangladesh. The non-life insurance penetration stood at 0.90 in the year 2008. Although there had been no increase in the value from the last year, yet from 2001 till 2006 it has been steadily increasing.

For India, the value had been 0.60 in the year 2008. From the year 2002 onwards, the non-life insurance penetration had been almost constant. In case of Pakistan, the general insurance penetration is very low. The value was 0.40 for the year 2008. Moreover, the values are fluctuating with no upward trend. Similarly for Bangladesh, the general insurance penetration

had been almost constant at 0.20 from 2003 onwards.

GENERAL INSURANCE DENSITY IN ASIA

General insurance density, which is measured as ratio of premium (in US Dollars) to the total population of the country, is highest in Japan among all Asian nations. It had been steadily increasing from the year 2001 till 2004 when it reached the mark of 830.8. However, from the year 2005 onwards, the general insurance density in Japan kept constantly decreasing till 2007. For the year 2007, the value had been 736.0. Year 2008 witnessed a high growth in general insurance density. The value stood at 829.2.

It is closely followed by South Korea which registered a general insurance density of 621.0 in the year 2008. For South Korea, the density showed an upward trend till 2007 due to the constant increase in its value year on year. The average growth rate of general insurance density for South Korea is 16.2 per cent, which is undoubtedly a high growth rate. It could be partly due to the inclusion of savings-type policies in non-life business in South Korea.

Among developing nations, Taiwan, Hong Kong and Singapore have a better insurance density as compared to the rest of the countries. Taiwan has a higher insurance density among the three countries over the years. The value stood at 499.6 for the year 2008. Also, the value is steadily increasing every year. The average growth rate for general insurance density in case of Taiwan is 5.95 per cent.

Singapore had the maximum general insurance density among developing nations in the year 2008. The value stood at 630, which is even higher than that of South Korea for 2008. In fact, the growth rate over the previous year had been a whopping 55.69 per cent. The average growth rate stands at 15.29 for Singapore. This shows that general insurance industry is on a high

growth trajectory in Singapore. The market is, thus, growing by leaps and bounds.

Hong Kong is the next in the line close by Singapore in terms of general insurance density. It registered a value of 380.8 in the year 2008 and growth rate over the previous year had been 11.57 per cent. The growth rate was on a constant decline from the year 2002 onwards until in the year 2006 when Hong Kong made a growth of 2.93 per cent.

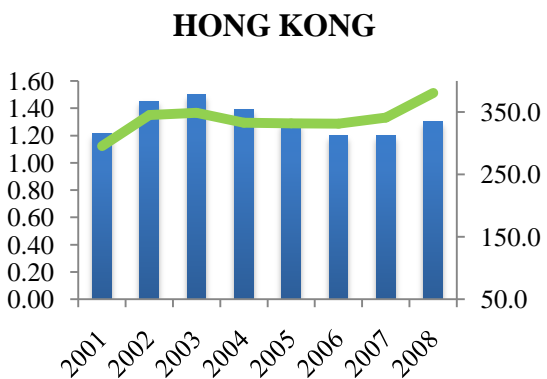
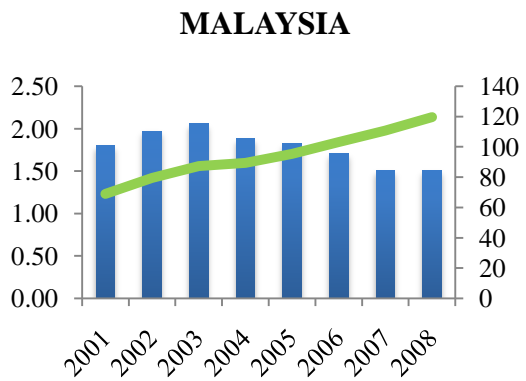
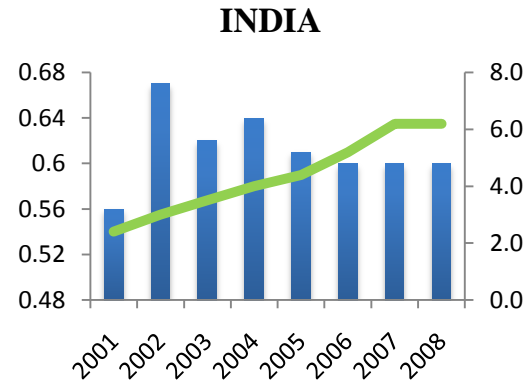
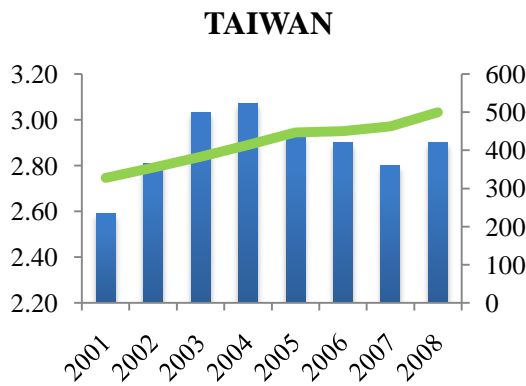
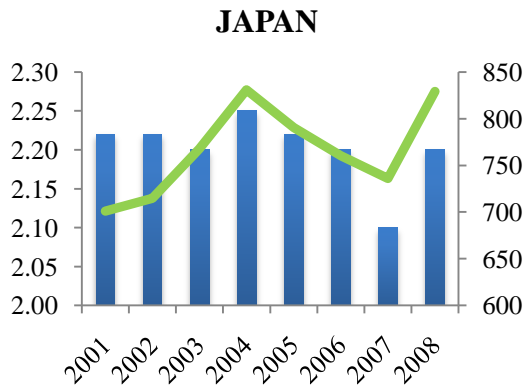
Malaysia is fast gaining momentum in the general insurance sphere. The average annual growth rate is 8.30 per cent. The non-life insurance density is on a constant increase year on year.

Also, China is maintaining an impressive annual growth rate of 21.93 per cent. China is being considered as the next big hub for non-life insurance industry because of its competitive

advantage and aggressive globalization strategies.

Among the countries of the Indian sub-continent, it's Sri Lanka which is presently maintaining the top position. The general insurance density for the year 2008 had been 33.7. The average annual growth rate for Sri Lanka is 18.45 per cent. Next in the line is India, registering a density of 6.2 for the year 2007. Also, the average annual growth rate for India is 17.23 per cent. Pakistan had a general insurance density of 4.0 in the year 2008. Its average annual growth rate is 17.60 per cent. Lowest in the rank is presently Bangladesh which had a density of just 1.1 in the year 2008. However, the average annual growth rate is 7.24 per cent. It is expected that with globalization coming in, this growth rate will surely increase.

General Insurance Penetration and Density for Asian Countries:

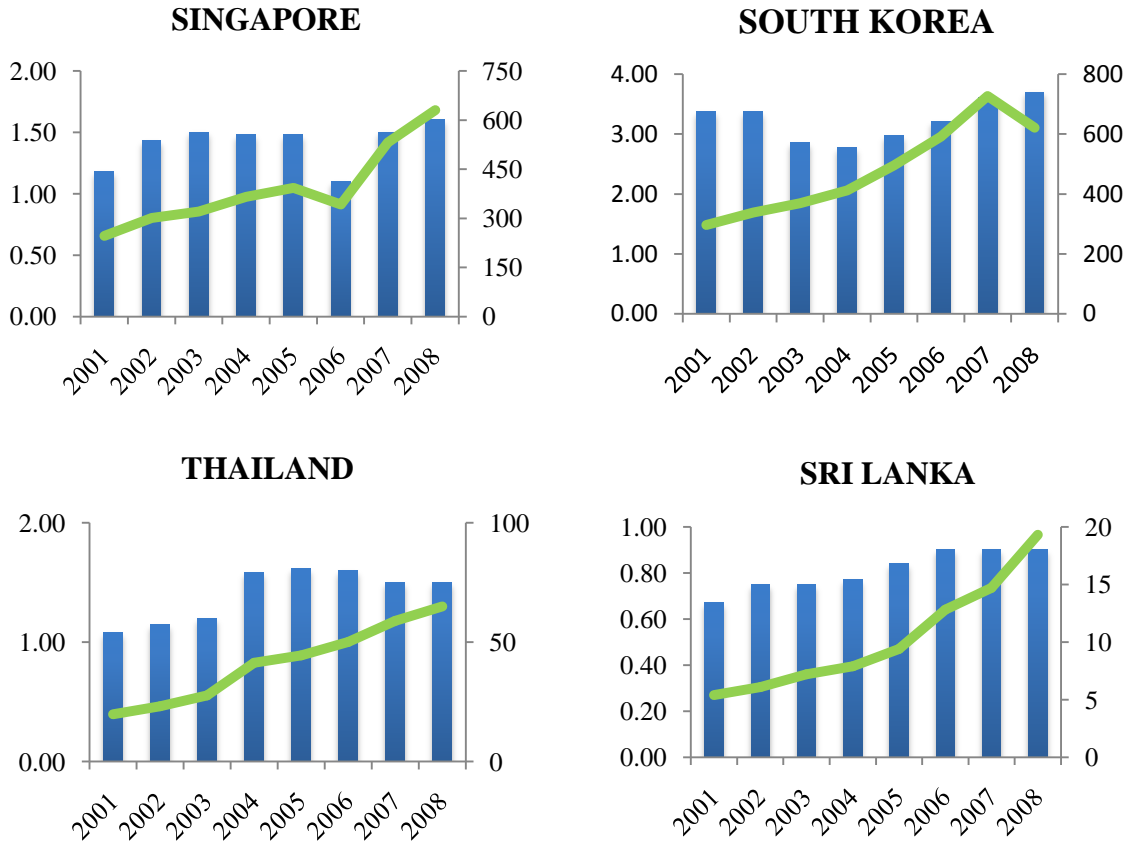


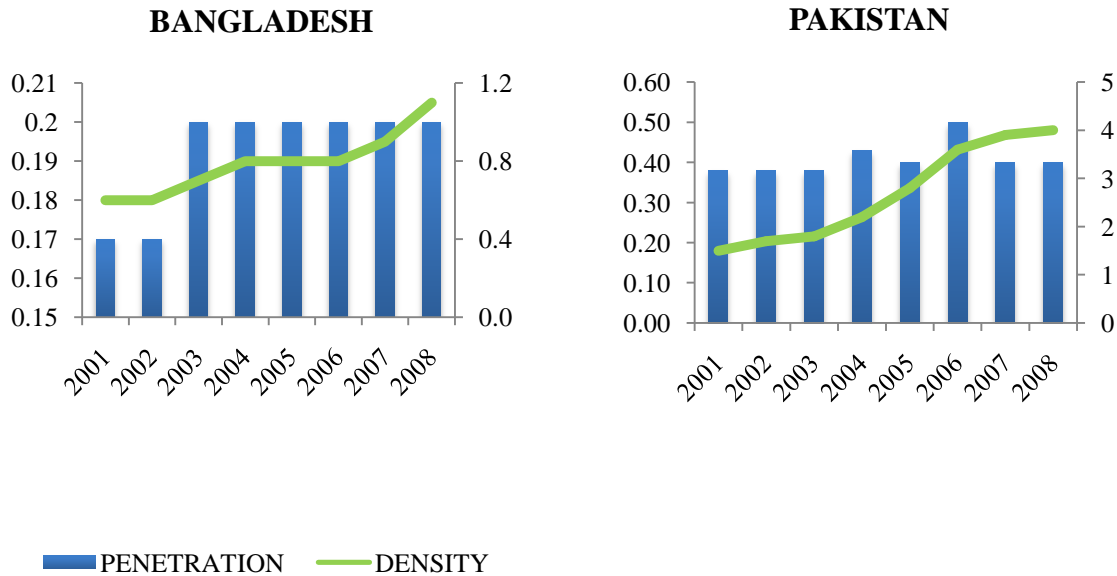
■ PENETRATION — DENSITY

“General insurance: Penetration and density”

Note: General Insurance Penetration plotted on primary axis and Density on secondary axis
 Source: data from IRDA

General Insurance Penetration and Density for Asian Countries:





*Note: General Insurance Penetration plotted on primary axis and Density on secondary axis
Source: data from IRDA*

**INDIA: A LATENT MARKET
GENERAL INSURANCE PENETRATION
IN INDIA**

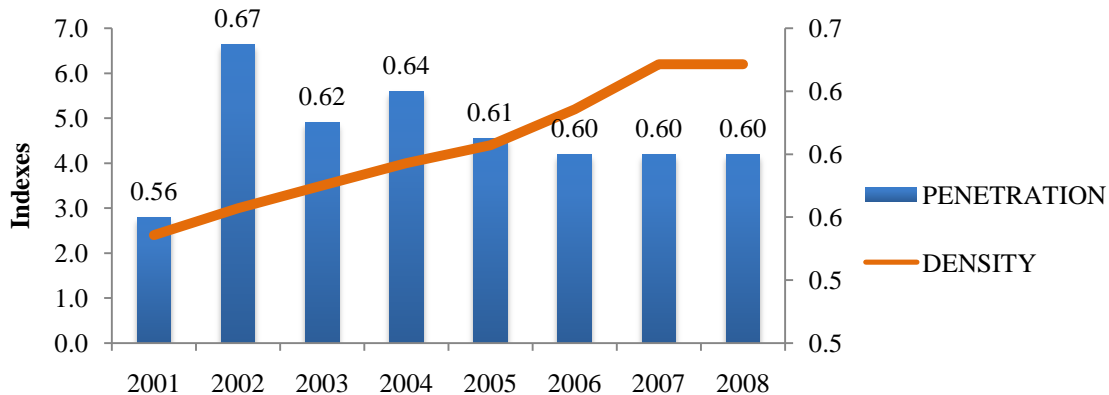
In India, general insurance penetration has been low but it is now steadily increasing. Although compared to other developing nations, general insurance penetration in India is still very low. This shows the lack of general insurance awareness in India and hence, the dormant status of general insurance industry in India. For the year 2007, general insurance penetration in India had been 0.60. It remained same as the

last financial year due to global economic recession. However, the economic situation in the country is now improving hence the Indian general insurance penetration is also bound to improve.

**GENERAL INSURANCE DENSITY IN
INDIA**

The general insurance density in India is showing an unprecedented growth every year. For the year 2008-09 it had been 6.2 which is a 19.23% growth over the previous financial year of 2007-08.

Indian General Insurance Industry



Source: Data taken from IRDA

General Insurance penetration on primary axis and density on secondary axis

CONCLUSION

A study of general insurance penetration and density reveal that on an international platform, the developed nations are the pioneers. At the same time an evident market saturation of developed countries reflect the need of innovation for such a market.

Developing nations represent a high growth prospective because of lesser penetration and density of general insurance industry.

Asia, with major growth engines China and India, poses to be an attractive market. Major general insurance giants are attracted to Asian market due to low penetration and density of general insurance industry here.

In case of India, both penetration and density is whopping low. However a steady growth in these two parameters over the years makes it a nascent market.

REFERENCES

1) <http://www.irdaindia.org/>

2) http://www.oecd.org/document/28/0,3343,en_2649_34851_40182748_1_1_1_1_00.html